

## Message Text

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ACTION SS-30

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EXDIS

E.O. 11652: GDS

TAGS: EMIN, EINV, GY

SUBJECT: REYNOLDS NEGOTIATION

REF: GEORGETOWN 1537

SUMMARY: FONMIN RAMPHAL TOLD AMBASSADOR AUG 27 CABINET MEETING RESULTED IN AGREEMENT THAT MINMINES JACK PURSUE NEGOTIATIONS WITH REYNOLDS ON BOTH TAXATION AND NATIONALIZATION WHILE RAMPHAL UNDERTAKES CONCURRENT TALKS AT GOVT-TO-GOV LEVEL TO EXPLORE ALL POSSIBLE ALTERNATIVES WHICH COULD PRECLUDE CONFRONTATION. RAMPHAL AGREES TAX IS MAJOR STUMBLING BLOCK, BUT DOUBTS BURNHAM ABLE ABANDON IT ALTOGETHER. RAMPHAL HOPES TAX CAN BE FORMULATED AT LEVEL AND IN MANNER WHICH AVOIDS COMPLICATIONS BOTH FOR REYNOLDS AND USG. MAJOR UNKNOWN IS WHETHER LONG-TERM ACCESS TO METAL GRADE BAUXITE, IN ABSENCE OF OWNERSHIP, HAS ANY ECONOMIC VALUE TO REYNOLDS, AND IF SO, HOW MUCH. RAMPHAL AND BURNHAM HAVE ASSUMED IT HAS. ACCORDING RAMPHAL, JACK IS TO INVITE REYNOLDS TEAM RETURN SOON, AND RAMPHAL WOULD LIKE OPIC REPRESENTATIVE AVAILABLE GEORGETOWN TO ASSIST. UNLESS MAJOR ISSUES RESOLVED NEXT 15 DAYS, RAMPHAL BELIEVES GOG WILL INTRODUCE FIRST TAX, AND THEN NATIONALIZATION, BILLS. END SUMMARY.

1. I HAD ONE-HOUR MEETING WITH RAMPHAL AT FONOFF, AS FORECAST REFTEL. HE GAVE ADDITIONAL DETAILS ON AUG 27 CABINET MEETING, I.E. THAT AFTER LENGTHY DEBATE, PM BURNHAM AND REST OF CABINET AGREED, ALTHOUGH RELUCTANTLY, TO GIVE RAMPHAL A CONFIDENTIAL

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CHANCE TO TRY OUT HIS APPROACH OF OPENING NEGOTIATIONS ON

NATIONALIZATION WHILE CONTINUING TO EXPLORE TAXATION ISSUE WITH BOTH REYNOLDS AND USG. HE SAID MOOD OF CABINET LESS EMOTIONAL AND DETERMINED THAN LAST WEEK, PARTICULARLY IN FACE OF RAMPHAL'S ELABORATION OF PROBABLE CONSEQUENCES, EXTENDING BEYOND USG-GOG RELATIONS, OF UNILATERAL ACTION. HE SAID ONLY HOYTE AND REID, PLUS JACK, REMAINED UNCONVINCED THAT USG (AND REYNOLDS) COULD ACCEPT TAKEOVER, REGARDLESS OF FORMULA SURPRISINGLY, GREEN AND FIELD-RIDLEY WERE FOR ONCE ON RAMPHAL'S SIDE. BURNHAM, RAMPHAL SAID, SHOWED CLEAR INTENTION OF KEEPING ALOOF FROM DIRECT PARTICIPATION IN NEGOTIATIONS, AND IN FACT OF STAKING OUT POSITION OF FINAL ARBITER WITHIN CABINET.

2. UPHOT OF MEETING, RAMPHAL CONTINUED, WAS INSTRUCTION TO MINMINES JACK TO RESUME TALKS SOONEST WITH REYNOLDS, BOTH ON TAXATION AND NATIONALIZATION ( I WAS NOT SURE I HAD UNDERSTOOD LATTER POINT CORRECTLY LAST NIGHT, SO DID NOT INCLUDE IT IN REFTEL). ON TAXATION, JACK IS TO ASK FOR MORE DETAILED BRIEF OF REYNOLD'S JUSTIFICATION FOR EXCLUDING SALES OF CHEMICAL GRADE FROM PRODUCTION LEVY. ON NATIONALIZATION, HE IS TO STATE FORMALLY GOG INTENTION TO NATIONALIZE COMPANY BY JANUARY 1, 1975 AND OPEN NEGOTIATION ON TERMS. RAMPHAL SAID JACK HAS ALWAYS BEEN RELUCTANT TO TAKE ON THIS TASK BECAUSE HE IS CONVINCED REYNOLDS WILL SIMPLY REFUSE TO NEGOTIATE, BASED ON PAST STATEMENTS OF MC CONNELL (1971) AND ON EXPERIENCE IN TAX NEGOTIATIONS. FACT OF MATTER, RAMPHAL ADDED, IS JACK DOESN'T UNDERSTAND ART OF NEGOTIATION, AND MAKES NO EFFORT TO ENGAGE IN MEANINGFUL DIALOGUE WITH OTHER SIDE.

3. SIMULTANEOUSLY, CABINET AUTHORIZED RAMPHAL , TO ENGAGE IN OFFICIAL TALKS WITH EMBASSY TO EXPLORE ALL POSSIBLE ALTERNATIVES WITHIN FRAMEWORK OF NATIONALIZATION-TAXATION-SUPPLY WHICH COULD PRECLUDE CONFRONTATION. HE SAID HE DOUBTED SINCERELY THAT BURNHAM COULD ABANDON TAX ALTOGETHER, BUT HE HOPES THAT NOW THAT GOG HAS SCALED ITS TARGET DOWN TO APPROXIMATELY US DOLS 6 MILLION, WAYS MIGHT BE DEVISED TO FORMULATE THE TAX SO AS TO AVOID COMPLICATIONSBOTH FOR REYNOLDS IN ITS NEGOTIATIONS ELSEWHERE AND FOR USG IN TERMS OF ITS CRITERIA ON EXPROPRIATION. I SAID I CONSIDERED TAX AT LEVEL HE MENTIONED AS MAJOR STUMBLING BLCK TO NEGOTIATED AGREEMENT. HE CONCURRED, BUT WENT ON TO SAY HE THOUGHT CONFIDENTIAL

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SIGIFICANT FACTOR ON GOG SIDE WAS PM'S COMMITMENT TO ACCORD REYNOLDS' GUARANTEED LONG-TERM SUPPLY. I SAID I WOULD HAVE TO REGARD LATTER POINT AS IMPOUNDERABLE. I EXPLAINED AGAIN MY UNDERSTANDING OF ECONOMICS OF REYNOLDS GUYANA OPERATIONS, AND SAID I UNDERSTOOD COMPANY POSITION TO BE THAT THEY DID NOT RPT NOT NEED METAL GRADE BAUXITE FROM GUYANA EXCEPT WITHIN CONTEXT OF CONTINUING OWNERSHIP AND CONTROL OF THEIR ENTIRE OPERATION HERE. I ADDED THAT SOME FACTORS WERE CLEAR,EG THAT GUYANESE METAL

GRADE BAUXITE COSTS SUBSTANTIALLY MORE DELIVERED AT U.S. PORT THAN JAMAICAN, AND THAT COST TO REYNOLDS HAS BEEN OFFSET BY THE PROFITS ON CALCINED-CHEMICAL SALES. HOWEVER, WHAT WAS NOT CERTAIN, AT LEAST IN MY MIND, WAS EXTENT TO WHICH REYNOLDS ALUMINA PLANT IN U.S. DEPENDS ON HIGHER-QUALITY BAUXITE FROM GUYANA, AND THEREFORE WHAT PRICE COMPANY PREPARED TO CONSIDER TO CONTINUE OBTAINING SAME.

4. RAMPHAL SAID TIME IS RUNNING OUT ON NEGOTIATIONS. HE LEAVES FOR UNGA ON SEPT 14 AND HE FEARS ONCE HE IS OUT OF PICTURE JACK'S VIEWS WILL PREVAIL ON PM. HE INTENDS TO PRESS JACK TO GET NEGOTIATIONS MOVING AGAIN SOONEST, IN LINE WITH CABINET DECISION. (WAGNER INFORMS ME JACK HAS CALLED FOR A MEETING WITH HIM TOMORROW, AUG 29). RAMPHAL BELIEVES IT IMPORTANT THAT REYNOLDS TEAM RETURN AS SOON AS POSSIBLE.

5. RAMPHAL RECALLED I HAD MENTIONED AVAILABILITY OF OPIC EXPERTISE AND THAT DEPTS MESSAGE HAD INDICATED OPIC WOULD HAVE TO APPROVE ANY SETTLEMENT. HE ASKED WHETHER I THOUGHT OPIC REPRESENTATIVE ON SCENE HERE MIGHT BE HELPFUL. I REPLIED AFFIRMATIVELY AND HE THEREFORE SUGGESTED OPIC REPRESENTATIVE COME HERE WITH REYNOLDS TEAM.

6. AMONG OTHER OBSERVATIONS ABOUT CABINET DISCUSSION, RAMPHAL SAID MOST OF MINISTERS STILL SEEM TO BELIEVE REYNOLDS HAS ALLOWED INSTALLATIONS AND EQUIPMENT TO DETERIORATE AND THAT THEREFORE THEY EXPECT TO NEGOTIATE COMPENSATION AT CONSIDERABLY LESS THAN BOOK VALUE. I ASKED HIM HOW MANY MINISTERS HAD VISITED REYNOLDS MINE AND PLANT RECENTLY, AND HE SAID VERY FEW, IF ANY. I AGAIN TOLD HIM MY IMPRESSION FROM VISITS TO BOTH GUYBAU AND REYNOLDS WAS THAT LATTER HAD MAINTAINED ITS INSTALATIONS AND EQUIPMENT AS WELL AS COULD BE EXPECTED IN LIGHT OF IMPENDING NATIONALIZATION. IT WOULD BE DIFFICULT FOR REYNOLDS TO CONTINUE TO MEET PRODUCTION

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TARGETS IF THEY LET EQUIPMENT RUN DOWN.

7. COMMENT: I BELIEVE WE SHOULD RESPOND TO THIS LATEST OVERTURE BY ARRANGING FOR OPIC REPRESENTATIVE TO ARRIVE HERE EVE A DAY OR TWO AHEAD OF REYNOLDS TEAM. RAMPHAL IS PROBABLY OUR BEST (AND LAST) HOPE FOR AVOIDING MAJOR CRUNCH WITH GOG ON REYNOLDS ISSUE. RAMPHAL GRASPS THE WIDER IMPLICATIONS OF ISSUE, BUT HE NEEDS (AS DOES EMBASSY) GUIDANCE ON ECONOMICS OF ALUMINUM INDUSTRY AND LIMITS OF TOLERANCE FOR BOTH REYNOLDS AND USG IN THIS COMPLEX SITUATION. KREBS

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## Message Attributes

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